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Delivering Sustainable Futures

14 November 2018

BY FAX/HAND
(Fax No.: 603 - 2070 9107)

MINORITY SHAREHOLDER WATCH GROUP
Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attention: Mr Devanesan Evanson
Chief Executive Officer

Dear Sirs,

Twelfth Annual General Meeting ("12th AGM") of Sime Darby Berhad on 15 November 2018

We thank you for your letter dated 9 November 2018 informing Sime Darby Berhad ("SDB" or "Company") of the issues that the Minority Shareholder Watch Group ("MSWG") intends to raise at the 12th AGM of the Company to be held on Thursday, 15 November 2018 at 10.00 a.m.

We enclose SDB's response to the matters raised by MSWG in the letter as requested.

Thank you.

Yours faithfully,
SIME DARBY BERHAD

NOOR ZITA HASSAN
Group Secretary

Strategic/Financial Matters

1. **Following the completion of the pure-play exercise, Industrial and Motors are two core businesses of the Company, contributing 99% of the Group's revenue (refer to Note 48 to the Financial Statements on page 236 of the Annual Report). As stated on page 24 of the Annual Report, the Company is looking to expand the healthcare component as a core business?**

   a. **What is the target revenue contribution, in percentage, for the healthcare component?**

      The healthcare business consists of the Group's 50% equity interest in the Ramsay-Sime Darby Health Care ("RSDH") joint venture. The joint venture is accounted using the equity method, where no revenue is consolidated as part of the Group's revenue. As such, the RSDH joint venture does not contribute to the Group's revenue but the Group's share of profit of the RSDH joint venture is included in the Group's profit before tax.

      The RSDH joint venture contributed a profit of RM57 million in FY2018 or 9% of the Group's profit after tax and non-controlling interests ("Net Profit") of RM618 million. The RSDH joint venture is expected to contribute between 5% and 10% of Group core Net Profit in the near term.

   b. **Will the healthcare business be expanded organically or inorganically?**

      Healthcare is a valuable component for the Group and we are looking to expand it, both organically and inorganically.

2. **As highlighted on page 39 of the Annual Report, the Company is establishing a downturn strategy to mitigate the cyclical market risk in the mining and oil & gas sectors which has direct impact on the Industrial Segment of the Group**

   Please share the details of the downturn strategy? How will this strategy helps to better predict the timing of cyclical downturns and protect the profitability and the balance sheet of the Group during the downturn of the industry?

   Our downturn strategy for Industrial is primarily focussed on cost and working capital management as well as operational efficiency initiatives to strengthen our resilience during downturns.

   Some of the initiatives undertaken to manage overhead costs include branch rationalisation, workforce right sizing, manpower outsourcing to meet peak demand and leveraging on technology to increase efficiency. All these initiatives will assist us in protecting the profitability and balance sheet of the Group. In addition, the Group is exposed to the construction industry which is somewhat countercyclical to the commodity cycles.

   While industry downturns cannot be predicted with certainty, the use of financial analytics and leading indicators would help the business better predict signs of a possible downturn.

3. **As reported on page 40 of the Annual Report, the Industrial Segment achieved total cost reduction benefits of RM128 million from Operational Excellence ("OE") initiatives in FY2018.**

   a. **What are the major OE initiatives that have helped the Group achieve the cost reduction benefits? What are the costs that have been reduced from these initiatives?**

   OE initiatives are driven by all regions, localised to each regions' requirements with the same objectives which are to achieve cost reductions, higher productivity and being more efficient through digital. The OE initiatives are categorised into 3 segments: Business Transformation, Lean Six Sigma ("LSS")/ Caterpillar Production System ("CPS"), and Procurement savings.

   (i) Business Transformation initiatives realised a total of RM57million benefits in FY2018. Initiatives include manpower right-sizing, branch network optimisation and restructuring of the China Power Systems Division.

   (ii) LSS/CPS realised a total of RM43 million in benefits in FY2018. Initiatives include organizational manpower cost and reducing Component Rebuild Hours.

   (iii) Procurement savings realised a total of RM29 million in benefits in FY2018. Initiatives include negotiating better terms from vendors.

   b. **For FY2018, the "operating expenses" is 8% higher than FY2017. How will the OE initiatives affect the trend of the operating expenses of the Group, moving forward?**

   The Group's operating expenses primarily consists of direct costs such as the cost of equipment, vehicle and parts purchased from principals. As such, a significant portion of the operating expenses are variable costs that would change with revenue.

   The Group's operating expenses in FY2018 increased by 8% as compared to FY2017, while revenue increased by 9% during the same period.

   Moving forward, we expect that the OE initiatives will help either reduce or mitigate the increase in operating expenses.

4. **As stated on page 26 of the Annual Report, the online sales portal for Industrial Segment launched in China and Australia has successfully enhanced customer experience and contributed to increased market share.**

   a. **What is the current market share of the Company in China and Australia?**

   As at FY2018, our market share in Australia for equipment sales in mining stood at 44% and construction at 32%, retaining our market leadership in Australia. The market share for parts sales stood at 89%.

   Whereas in China as of FY2018, our market share for construction equipment sales was at 16%, ending the year at number three in the market. The market share for parts sales stood at 26%.

b. **Is the market share expected to increase, moving forward?**

Despite the intense competition, the Group is continuously working to increase its market share. Nevertheless, we believe that our customers will continue to see the value in and quality of the CAT products.

5. **As stated on page 48 of the Annual Report, one of the key risks of the Company's Motor Business is the competition from other dealers and grey importers selling vehicles at highly discounted prices.**

a. **The operating profit margin for the Motor Segment of the Company is low at around 3%. What are the advantages that other competitors have over SDB that allows them to sell vehicles at highly discounted prices?**

Grey importers have lower operating expenditure as they do not need to be compliant with the Principal's requirements in terms of showroom specifications and systems. Furthermore, they operate in a more flexible environment with regards to pricing as they import their cars at second hand value which is much lower than the car cost from manufacturers. However, grey importers do not have the capabilities to provide reliable after sales service and manufacturer's warranty; all of which are central aspects to Sime Darby Motors' business.

Sime Darby Motors on the other hand also allocate resources for purpose of governance and compliance as well as sustainability practices to fully meet regulatory and manufacturer's requirements. In addition, as an authorised dealer, Sime Darby Motors strives to operate with a sustainable business model and we adopt a long term view with regards to our principals, suppliers and customers.

b. **What is the price control mechanism put in place by the Principals?**

Distributors will always provide a Recommended Retail Selling Price (RRSP) for the vehicles. However, the final selling price to customers would depend on the respective dealers' promotions and offers.

c. **Is there any customer retention programme employed by the Company to retain loyal customers?**

There are events organized by distributors from time to time to engage the customers. Additionally, brands carry out loyalty programmes such as follows:

(i) BMW White Card that provides privileges to customers such as access to airport lounges, BMW driving school training, and road trips.

(ii) Porsche Loyalty Program that provides access to the Porsche Sport Driving School and racing track events at Sepang.

(iii) Hyundai Leader Program, that provides premium lounge access at service centres and airports.

In addition, we are conscious that the best way to retain loyal customers is to continuously provide a broad range of products at competitive pricing and deliver best quality after sales and customer service; which are key tenets of our business.

6. **As shown in Note 13 to the Financial Statements on page 179 of the Annual Report, the Group's share of loss of the associate, Eastern & Oriental Berhad ("E & O"), for FY2018 amounted to RM87 million and the Group recognized an impairment loss of RM103 million on the investment in E & O.**

   Would E & O be part of the Group's strategy to dispose non-core businesses?

   The impairment loss in E&O is in line with the accounting standards adopted. The Group is constantly evaluating our portfolio of businesses as to whether to maintain, expand or monetise.

Corporate Governance

1. **The Company has under Resolution 1 tabled the Director's fees for the Non-Executive Directors for the financial year ended 30 June 2018. From the remuneration structure disclosed in Explanatory Note 2 on page 328 of the Annual Report, we note the following increases in the Director's fees: -**

	Pre Pure-Play (RM/Year)	Post Pure-Play (RM/Year)	Increase (RM/Year) (%)
Board - Member	**180,000**	**220,000**	**40,000 (22%)**
G&AC - Chairman - Member	**40,000** **30,000**	**80,000** **50,000**	**40,000 (50%)** **20,000 (67%)**
Other Committee - Chairman - Member	**40,000** **30,000**	**60,000** **35,000**	**20,000 (50%)** **5,000 (17%)**

   Given that the Company has been "downsized" after the Pure-play exercise, what is the rationale and the justification for the increase in the above Directors' fees?

   The objective of the Company's policy on Directors' remuneration is to ensure that remuneration of Directors is reflective of the Group's demands, complexities and performance as a whole, as well being able to attract and retain Directors of the right calibre and talent to drive the Company's long-term objectives. The Directors' remuneration policy is reviewed regularly to ensure that the compensation of the Chairman and Directors are aligned to at least around the 75th percentile of appropriate peer groups respectively.

   The remuneration structure of the Non-Executive Directors ("NEDs") post pure-play was determined based on a benchmarking study carried out by an Independent External Consultant appointed by the Company. A comparison of the remuneration of the NEDs was made with selected companies that are comparable with Sime Darby in terms of size and businesses of similar nature from the region.

2. **The Company in its Corporate Governance Report states that it has adopted Step Up Practice 4.3 of the MCCG which requires the Board to have a 9-year tenure limit policy for its independent directors.**

   However, in Paragraph 3.2 of the Company's Board Charter, it is stated that "If the Board intends to retain an Independent Non-Executive Director beyond nine (9) years, it shall justify and seek annual shareholders' approval".

   Paragraph 3.2 contradicts the Step Up Practice 4.3 as the latter does not provide for any extension of tenure beyond the 9-year tenure of Independent Directors.

   Please take note.

   Noted. The Company is reviewing its Board Charter.